February 1991 Monthly Survey

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Surveys of Consumers

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CONSUMER CONFIDENCE INCHES UPWARD

Confidence Improves

Consumer sentiment continued to improve in the February 1991 survey, posting its largest one-month gain since the October 1990 low. In the February 1991 survey, the Index of Consumer Sentiment was 70.4, up from 66.8 in January, and the recent low of 63.9 in October 1990.

The improvement recorded in the February survey does not reflect consumers reactions to the conclusion of the war, as all of the February interviews were completed prior to the end of the Gulf war. The very successful conclusion of the war can be expected to have a further positive impact on consumer attitudes--at least in the short term. The more important issue is whether the improvement can be sustained after the initial euphoria fades.

Attitudes Positioned At Turning-Point

The overall trends in the various attitude and expectation measures reflect the type of movements usually associated with turning-points around trough levels: future prospects have started to brighten while evaluations of the current economic situation remained negative. To be sure, the February data has thus far only indicated the very early stages of improvement. Thus, at present a growing number of consumers think that the economy will not further worsen, not that good times will be quickly restored. Expectations of lower inflation rates as well as declines in interest rates have played an important role in the improvement.

Leading Indicator Continues to Improve

The Index of Consumer Expectations posted its fourth consecutive monthly improvement since reaching its October 1990 low. Although the strong February gain of 6.8 Index-points puts the Expectations Index more than 10 Index-points above its October low, it still remains nearly 20 Index-points below the year earlier reading.

The entire February gain was in improved prospects for the future, as evaluations of current economic conditions continued to decline. The Index of Current Economic Conditions fell slightly to 83.7 in February from 84.9 in January, to mark its lowest level since the recessions of the early 1980s.

Improvement Across All Regions

The February improvement in sentiment was greatest among residents of the North Central region (75.7 in February, up from 68.7 in January),

followed by residents of the West (70.9, up from 65.7 in January), and residents of the South (70.8, up from 67.9 in January). Residents of the Northeast posted the smallest improvement (64.3 in February, up from 63.3 in January).

Among families with incomes of $30,000 or more, the Index was 73.9 in February, unchanged from the 73.7 recorded one month earlier, but above the 68.7 recorded three months earlier.

Recession Lowpoint Reached: Some Improvement Expected

While the vast majority of families still thought that the economy was in recession in the February 1991 survey (78 percent, insignificantly below the January peak of 81 percent), the proportion of families that saw improvement on the horizon continued to grow. Among all families in the February 1991 survey, 27 percent thought that the economy would improve during the year ahead, marking the fifth consecutive monthly improvement since the low of 11 percent recorded in the September 1990 survey. At the same time, the proportion that expected the economy to worsen fell to 29 from 43 percent.

While consumers viewed prospects for the national economy more favorably in the February 1991 survey, most families still expected bad times overall. Among all families in the February 1991 survey, 64 percent still expected bad times financially in the economy as a whole during the year ahead, down from 70 percent one month earlier and 74 percent three months ago. Just 20 percent expected good times financially in the economy as a whole during the year ahead, up from 12 percent at year-end 1990.

The national unemployment rate was expected to increase during the year ahead by 56 percent of all families in the February 1991 survey. Although the majority still expected the unemployment rate to increase, the February reading was below the 64 percent peak recorded three months earlier.

Consumers' evaluations of government economic policies improved significantly in recent months. Among all families in the February 1991 survey, 24 percent rated government economic policies poor, down from 31 percent one month earlier and 40 percent three months earlier. Most of the change was toward the view that government was doing a "fair" job (58 percent, up from 49 percent three months earlier), rather than toward the view that the government was doing a "good" job (15 percent, up from 8 percent three months earlier).

Interest Rates Expected to Decline

The February 1991 survey recorded the fifth consecutive monthly improvement in interest rates expectations. More families expected interest rates to decline in the February 1991 survey than at any other time since the end of the last recession in the early 1980s. Among all families in the February 1991 survey, 43 percent expected interest rates to decline during the year ahead, more than twice the 21 percent recorded three months earlier, and nearly three times higher than the September 1990 low of 14 percent. The proportion that expected increases in interest rates during the year ahead fell to 31 percent in February, from 57 percent three months ago and less than half the 63 percent peak recorded in September 1990.

Personal Finances: Less Harm From Prices But No Help From Income

Consumers' assessments of their current financial situation weakened in the February 1991 survey due to smaller income gains. Among all families, 32 percent reported being better off financially than a year earlier in the February 1991 survey, down from 34 percent in January and 38 percent in February 1990. Income increases were reported by 25 percent of all households in February; nearly as many households, 21 percent, reported income declines. In comparison, in the February 1990 survey, almost twice as many households reported income increases as income declines (30 versus 16 percent).

For the year ahead, consumers were less negative

about prospects for the personal financial situation, because of expected declines in the rate of inflation. Among all families in the February survey, just 12 percent expected to be worse off financially, down from 14 percent in January and half the 24 percent recorded in October 1990. While fewer expected to be worse off, the proportion that expected their financial situation to improve did not increase: 32 percent expected improvement in the February 1991 survey, unchanged from January, and only marginally above the 29 percent recorded in October. The lack of gains in positive expectations was due to continued expectations of slower income growth.

Inflation Rate
Expected To Decline

The annual rate of inflation expected by consumers fell to 4.8% in the February 1991 survey from 5.1% one month earlier and the recent high of 6.1% in October 1990. This was the lowest rate of inflation expected since just prior to the start of the Gulf crisis, when an annual rate of inflation of 4.7% was expected in the July 1990 survey.

Vehicle Buying Attitudes
Post Small Improvement

Favorable attitudes toward buying conditions for vehicles were held by 53 percent of all families in the February 1991 survey, up from 48 percent one month earlier. The proportion holding unfavorable car buying attitudes fell to 39 percent in February 1991 from a high of 45 percent three months earlier. The small improvement was due to more frequent references to the expectation that price discounts would be available during the upcoming year, reported by 43 percent of all families in the February 1991 survey, up from 36 percent one month earlier.

Lower Mortgage Rates
Improve Home Buying Attitudes

Attitudes toward home buying conditions were unchanged in the February 1991 survey from the improved levels recorded one month earlier. Among all families in the February 1991 survey 61 percent held favorable attitudes toward home buying conditions, unchanged from January, and well above the recent low of 50 percent recorded in the October 1990 survey. The improvement since the start of the year was mainly due to lower mortgage interest rates. Among all families, 33 percent reported the availability of lower mortgage rates in the February survey, nearly twice the low of 17 percent recorded in the October 1990 survey.

Attitudes Toward Buying Conditions
For Household Durables Unchanged

Unlike attitudes toward vehicles and homes, attitudes toward buying conditions for furniture, appliances, and home electronics remained largely unchanged at low levels in the February survey. The proportion of all families that reported that buying conditions for large household durables stood at 54 percent in the February 1991 survey, just above the 53 percent recorded one month earlier. Overall, buying attitudes toward large household durables have not change very much since the December 1990 survey, marking the least favorable buying opinions since the recessions of the early 1980s.

The reason given by consumers for these unfavorable buying attitudes reflect their sense of uncertainty about future economic prospects.

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The February 1991 survey included 504 completed interviews conducted between January 30 and February 25, 1991.